Contracting Community Highlights

This issue's feature article highlights the negotiating strategies of the U.S. Army Aviation and Missile Command (AMCOM) in getting the best value for the government within the constraints of a multiyear indefinite delivery indefinite quantity requirements-type contract for the Hydra-70 2.75-inch rocket system. Of particular interest, was the challenge of achieving fair and reasonable pricing when the government was not making quantity and item guarantees on what would be bought under the contract, if anything at all. This informative article delineates the strategies involved when evaluating 19 major subcontractors, using multiple pricing matrices and adding special clauses to the contract to protect the government's interests. The successful negotiation of this contract was a long and arduous process. The lessons learned from AMCOM in its achievement of fair and reasonable pricing for unknown quantities of multiple noncommercial items is exemplary.

In addition to the feature article and the regular "DAR Council Corner," we are proud to provide news and achievements from several of our contracting organizations, including best practices of the Contracting Center of Excellence Purchase Card Division in reducing the delinquency rate on purchase card accounts and the Wage Determinations OnLine initiative.

We appreciate support from the field in providing material for publication, and we hope you are finding the submissions informative and interesting. If you need further information on any of the topics presented, contact Ann Scotti at (703) 604-7107 or **ann.scotti@hqda.army.mil**.

Ms. Tina Ballard
Deputy Assistant Secretary of the Army
(Policy and Procurement)

Challenges in Negotiating a Complex Indefinite Delivery Indefinite Quantity (IDIQ) Requirements-Type Contract

Greg Armstrong

The U.S. Army Aviation and Missile Command recently awarded a 5-year IDIQ requirements-type contract for the Hydra-70 2.75-inch rocket system. The Hydra-70, an Acquisition Category II program that is actually a family of munitions, is a free-flight rocket that has become the standard ground-attack rocket for the U.S. military. It was used extensively in the Korean War, Vietnam and *Operation Desert Storm*. The system performs numerous combat roles, including anti-materiel, anti-personnel and air-to-ground suppression missions. It also provides smoke screening and illumination functions. The Hydra-70 consists of various rocket configurations, designed for a specific target set or to accomplish a specific combat mission or training purpose. The system's rocket launchers come in two basic configurations, carrying either 7 rockets (M260) or 19 rockets (M261) per launcher. The rocket launchers are extremely versatile and are currently used on several different firing platforms including the Army's Apache, Cobra and Kiowa Warrior helicopters and other fixed- and rotary-wing platforms used by the Marines, Navy and Air Force, as well as several foreign nations.

Hydra-70 is managed by the Joint Attack Munition Systems Program Management Office (PMO) under the Program Executive Office (PEO) for Missiles and Space at Redstone Arsenal, AL. The system prime contractor is General Dynamics Armament and Technical Products (GDATP). GDATP is primarily engaged in composites technology and production, chemical/biological detection, protection systems and integrated armament products for air, land and sea platforms. The Hydra-70 rocket system is managed from GDATP facilities in Burlington, VT, with manufacturing facilities in Camden, AR.

Contract Description

The IDIQ requirements-type contract covers anticipated system requirements for FY05 through FY09, with a minimum estimated value of $984 million and a maximum estimated value of $3.4 billion. The evaluation process included a review of 19 major subcontractors from whom limited or full field pricing support was requested. Successful contract negotiation was a long and arduous process involving significant contributions by many people from both the government and industry. The contract was negotiated and awarded using Alpha contracting procedures and presented several unique challenges, one of which was getting fair and reasonable pricing when the government was making no quantity and item guarantees concerning what would be bought, if anything at all.

Challenges

This contract type inherently introduces a degree of risk to the contractor. This risk does not exist under other contract types, where exact quantities and delivery dates are known and where such additional risk would certainly find its way into the contract pricing. However, this contract type allows the government tremendous flexibility in meeting its requirements on time and at an overall fair price, even when those requirements cannot be determined and planned well in advance. The uncertainty surrounding the program's future, when combined with the fact that total program volume has such a significant impact on the contractor's total business and final costs, made the contractor understandably hesitant to make aggressive pricing assumptions for this contract. Besides, it is in the contractor's best interests to price a "worst-case" scenario when signing up to a fixed-price contract, especially when the period of performance extends years into the future. An approach was ultimately taken that balanced the contractor's risk of unknown order quantities with the government's risk of pricing based on much lower quantities than might actually be ordered.

The Hydra-70 is used on several helicopters, including the AH-64 Apache shown here. (U.S. Army photo.)

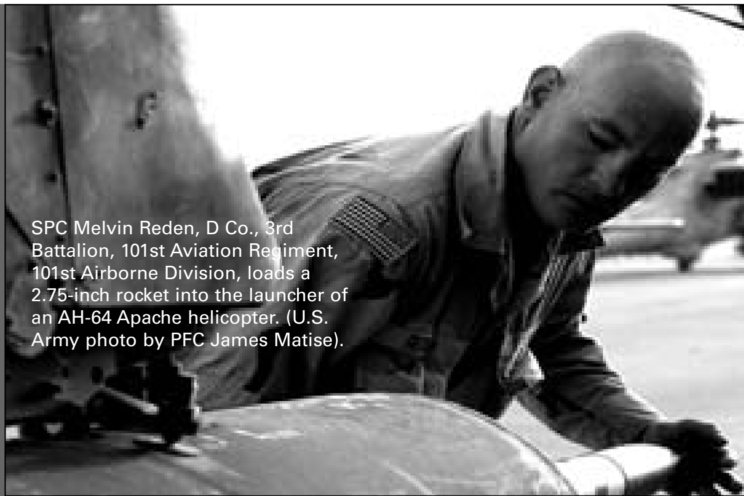
The Solution

Resolution of these pricing concerns was achieved through the use of multiple pricing matrices and adding other special clauses to the contract to protect the government's interests.

Multiple Pricing Matrices. With no defined quantities to price, the contractor had to make certain assumptions concerning what quantities would be procured to price their proposal. The contractor proposed using three different pricing matrices (each matrix provides unit pricing for various quantity ranges of all items in all five years). For each matrix, a different set of best-estimated quantity (BEQ) assumptions was used to develop the pricing. The BEQs negotiated for the low matrix assumed a minimal program with no cargo rounds. The BEQs negotiated for the medium and high matrices assumed increasingly higher total program volume, with the high matrix quantity assumptions being approximately equal to historical volume. For the pricing of actual orders under the contract, the applicable matrix will be determined by the quantities actually ordered. This method allowed the contractor to avoid undue risk if the orders under the contract were significantly curtailed as had been envisioned, but also protected the government's interests if order quantities under the contract ended up being high. Although difficult and time-consuming to propose and negotiate upfront, this approach was considered to be absolutely essential in protecting both the government's and the contractor's interests under the planned contract type.

Order Quantity Accumulation. A special cumulative quantity clause was included in the contract to avoid a situation where multiple low-quantity orders were placed, which would result in the government paying low-volume prices although the sum of order quantities placed would actually put the contractor in a high-volume production environment. This clause stipulates that the pricing matrix will be determined by the total of quantities placed on order during a defined ordering window each year extending from Sept. 1 through the end of the following February. The clause dictates retroactive re-pricing of quantities previously ordered during the window to consider the final sum of qualifying quantities ordered. The window includes the last month of each government FY to capture any year-end "sweep-up" requirements and allow them to be priced along with any of the following FY's requirements that are placed within the FY's first five months. This window is considered sufficient to capture most of the government's annual requirements and allow them to be priced as one order, although they may, in fact, be placed at different times under different orders. Orders placed outside of the ordering window will be priced on a stand-alone basis.

PMO Allocation Caps. The contract prices included an allocation of PMO costs to each item, based on its BEQ. This approach protected the contractor from being denied a full recovery of its PMO costs, but it virtually guaranteed the government would pay excessive PMO costs for any quantity over the absolute minimum required to get on a higher matrix and receive the more beneficial pricing. This "over recovery" concern was alleviated by a special contract provision, which places a cap on the total PMO allocation to be paid yearly. The cap is based on the negotiated PMO amount for each matrix in each year. Each pricing matrix shows the per-unit PMO allocation for each item. Once sufficient quantities have been ordered to allow the contractor a full recovery of the negotiated PMO amount, the unit prices of all subsequent quantities purchased during the ordering window will be decremented by the PMO allocation.


SPC Melvin Reden, D Co., 3rd Battalion, 101st Aviation Regiment, 101st Airborne Division, loads a 2.75-inch rocket into the launcher of an AH-64 Apache helicopter. (U.S. Army photo by PFC James Matise).

Minimum Buys. Yet another special contract clause was added to protect the government's interests for costs associated with minimum materiel buys on select component parts. Depending upon the circumstances of a particular acquisition, minimum materiel buys may or may not be significant. But in our case, there were a select few component parts with minimum buy quantities far in excess of the quantities that would be required at the lower range quantities for a given end item. Many of these parts were common to multiple end items. With no guarantees concerning what the government would buy, the contractor initially priced a minimum buy for each of these components separately into each end item at the lower quantity ranges.

Given that the pricing point for the lower quantity ranges of each end item was the lowest quantity of that range, the potential overstatement in end-item unit price became significant. In fact, the minimum buys on two or three components served, in some cases, to nearly double the end-item unit price of cargo rounds at lower quantities. To get the unit prices of the cargo rounds at lower quantities down to a fair and reasonable level in comparison to historical prices for equivalent quantities, the contractor agreed to price the components at the economic order quantity (EOQ), even for quantities below that level. This protected the government from possibly paying multiple times for the same component hardware. To protect the contractors from having to buy excess and unnecessary materials at their own expense, a special clause was included in the contract that provides for re-pricing of the end items if they are ordered in quantities below the component EOQ to cover the contractor's minimum buy requirements. Any excess materials would then be credited to the government on any future orders that might require re-pricing under the clause.

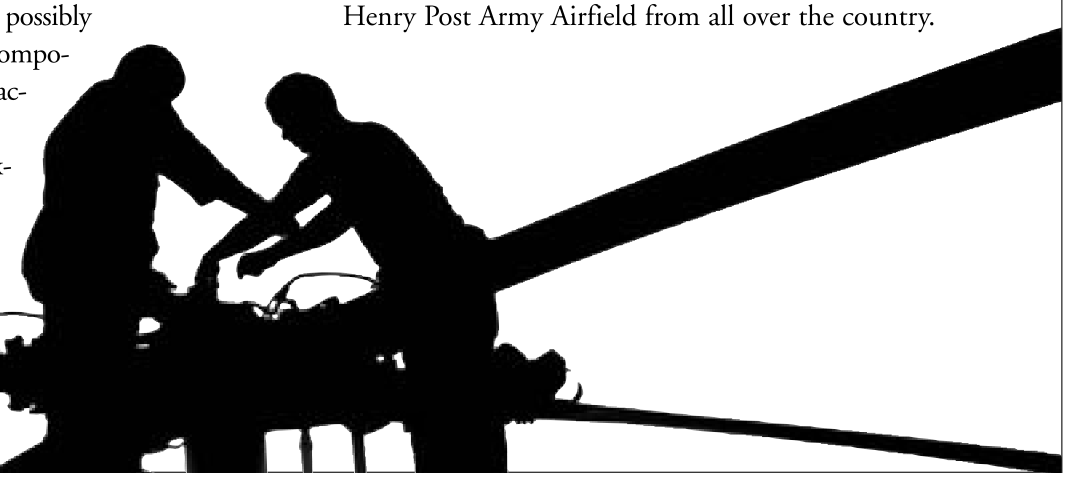
Achieving a consensus on fair and reasonable pricing for unknown quantities of multiple noncommercial items proved to be quite a challenge, requiring a significant amount of work by many people in addition to some creative contract writing. I believe our mission was accomplished. The negotiated prices are generally in line with historical prices, and the current contract was negotiated in a sole-source environment amidst abnormal uncertainty. The previous contract was awarded from a competitive solicitation, so the bar was set fairly high from the beginning. An obvious drawback is that contract administration will certainly be more difficult than normal. But, it provides the government almost unlimited flexibility in meeting its future requirements at fair and reasonable prices. It also allows the government to significantly influence the prices ultimately paid through proper management and placement of its requirements.

Greg Armstrong is a Contract Specialist with the PEO Tactical Missile's Directorate.

Supporting the Aviation Mission Through Contracting

Patricia Wilkinson

In the past, Fort Sill, OK, was home to aviation units. Now, once again, they are supporting multiple aviation efforts, including the training mission of Black Hawk and Chinook helicopters and their crews that are arriving at Henry Post Army Airfield from all over the country.



Recently, the First and Fifth Armies selected Fort Sill for their mission needs because the installation had the required infrastructure and facilities. However, the facilities needed repair, renovation and maintenance. The Army Contracting Agency-Southern Region, Fort Sill Directorate of Contracting (DOC), stepped up and executed numerous contractual actions to meet the installation's growing demands.

LB&B Associates Inc., the Directorate of Public Works contractor, upgraded existing airfield facilities and performed maintenance work in the hangars to accommodate aviation unit mobilization. The work included electrical system maintenance, crane load testing, checking ground points, fixing plumbing and repairing fire protection systems and security lights. LB&B also restriped the runways, repaired airfield perimeter fencing and constructed a wall to separate the administrative areas. Because of the influx of Soldiers after two years of inactivity, the Fort Sill Blockhouse Dining facility was reopened under the installation food service contract. Before opening, the facility required substantial renovations including asbestos abatement and installation of new fire and safety systems and kitchen equipment. T.P. Enterprises, Fort Sill's job order contractor, installed security fencing, repaired heating systems, replaced floor tiles, renovated latrines and provided eye-wash stations.

Fort Sill has also issued aviation maintenance requirements delivery orders to Sikorsky Support Services, DTS Aviation Services and Lear Siegler Services Inc. by using the Aviation Joint Administrative Management Support Services multiple award contract that was awarded by the Fort Hood, TX, Contracting Command.

A dozen Black Hawk helicopters and their crews from the 1st Battalion, 189th (Combat Support Aviation Battalion), were the first to arrive at Henry Post Army Airfield Sept. 9, 2004. Since then, the Fort Sill DOC and its contractors have provided continuous aviation mission support. Black Hawk and Chinook helicopters and their crews have deployed from Fort Sill to participate in *Operations Enduring* and *Iraqi Freedom* and to assist with earthquake relief efforts in Pakistan.

Patricia Wilkinson is a Contracting Officer with the Fort Sill DOC.

Eliminating Purchase Card Delinquencies

The Contracting Center for Excellence (CCE) Purchase Card Division has developed best practices for reducing the delinquency rate on purchase card accounts. Accounts are considered delinquent when payment is not made within 60 days. Delinquencies contribute to waste, resulting in the government paying interest fees and failing to get prompt payment rebates. In addition, delinquent accounts are suspended by the bank until the past-due amounts are paid, leaving the cardholder without purchase card privileges and, therefore, adversely impacting productivity.

The Army's standard for delinquencies is .75 percent. However, over the past 12 months, CCE's Purchase Card Division has succeeded in reducing its delinquency rate to zero by following preventative and reactive best practices such as:

- Ensuring each billing official has received approved payment policies and procedures training.
- Ensuring alternate billing officials are appointed to each account to certify payment in the absence of the billing official.
- Monitoring the delinquency report in the Customer Automated Reporting Environment (CARE) system and itemizing monthly breakdown of delinquent accounts on a monthly basis.
- Notifying billing officials by telephone and e-mail about their delinquent accounts.
- Sending e-mail notifications to billing officials whose names appear on the rejected payments report received from the Defense Finance Accounting Service (DFAS).
- Contacting resource managers and billing officials telephonically to provide assistance in processing manual payments of rejections.
- Working diligently with resource managers and DFAS after the bank's 45-day delinquency notice is received to correct deficiencies in lines of accounting, reallocation of funding and routing information in the CARE system.
- Contacting the billing officials for accounts that have been suspended because of 60-day delinquency to meet with the CCE Purchase Card Division chief to discuss the delinquency and develop resolutions.
- Conducting annual reviews of every billing official's account, including each account's payment history, and requesting corrective action plans to bring delinquent accounts into compliance to prevent suspension.

For more information about purchase card delinquencies, contact CCE Assistant Director Susan Taylor at (703) 695-0704 or **Susan.Taylor@hqda.army.mil**.

CELCMC Acquisition Center Career Intern Institute — A Proactive Approach for Transitioning New Employees Into the Workforce

Kimberly A. Tedeschi and Andrew O'Rourke

Over the past two years, the U.S. Army Communications-Electronics Life Cycle Management Command (CELCMC) Acquisition Center (CAC) has hired more than 100 interns, including several from our Fort Huachuca, AZ, and Washington, DC, satellite offices. The CELCMC CAC Career Intern Institute was created to provide formal class instruction on the acquisition process and to help interns transition into the workforce. Supervisory contract specialists and lead contract specialists were tasked to facilitate this important training. They shared their time, talent and particular areas of expertise with the newly hired interns by preparing briefings and handouts for classes. They took time out of their schedules, sharing their knowledge to preserve the integrity of the acquisition process, and their contributions helped accelerate intern development.

In addition to formal class instruction, briefings were provided by personnel from the CELCMC CAC, Defense Contract Audit Agency, the Defense Contract Management Agency (DCMA), CELCMC Legal Office, CELCMC Competition Management Office, CELCMC Deputy Chief of Staff for Resource Management, CELCMC Small and Disadvantaged Business Utilization Office and Program Manager Intelligence and Effects. These subject matter experts shared their experiences and viewpoints in certain critical areas that impact the way we do business. Presentation topics included:

- Knowledge management
- The Army single face to industry
- Market research and competition requirements
- Contracting with small business
- Professional development
- Reverse auctioning
- Procurement automated data and document systems training
- Ethics training
- Fiscal law
- Contract audit
- Alpha contracting
- DCMA's role
- Paperless contracting

After completing training, the interns were placed in positions within the CAC where they received on-the-job training and continued classroom instruction from the Defense Acquisition University.

As a result of this comprehensive training, the interns are able to work as contributing members of the CELCMC CAC team. They enter the workforce with a knowledge of how we do business versus being ill-prepared.

Feedback from the contracting officers who are assigned interns has been overwhelmingly positive. The interns also provided feedback saying the program is educational, yet enjoyable, and that the experience has helped them feel like team members.

A much deserved "well done" goes out to the facilitators involved, because they were key to making this training experience valuable to our newest acquisition professionals.

Kimberly A. Tedeschi and Andrew O'Rourke are CELCMC CAC Lead Contract Specialists.

Wage Determinations OnLine (WDOL) Launched

WDOL is the result of collaboration among the Office of Management and Budget, the Department of Labor (DOL) and other government agencies to make wage determinations issued by DOL readily available online (**www.wdol.gov**) to federal contracting offices and the public. This initiative is consistent with the federal government's objective to improve its efficiency and effectiveness by reducing paperwork through electronic processing.

WDOL eliminates the mechanical processing and submittal of *Standard Forms 98* and *98a* to DOL by contracting agencies. It also streamlines the process of getting wage determinations issued by DOL for service contracts subject to the *Service Contract Act (SCA)*. WDOL also automates the process for obtaining DOL's wage determination issued for construction contracts subject to the *Davis-Bacon Act (DBA)*.

The contracting officer (KO) now has the option to prepare this wage determination using the WDOL process.

Alternatively, the KO may request the wage determination directly to DOL by using the electronic 98 (e98) process. Whichever process is used pursuant to predecessor contractor's collective bargaining agreement (CBA), it is no longer necessary to include in the solicitation the clause notifying offerers of CBA submission to the DOL and that the agency is awaiting the wage determination decision that reflects the economic terms of the agreement.

In summary, the WDOL Web site offers its users numerous features including:

- Guidance to the KO on selecting the correct wage determinations for each contract action.
- Access to the current *SCA* and *DBA* wage determinations.
- Access to archived wage determination databases under both the *DBA* and *SCA*.

To assist the KO in selecting the correct *SCA* wage determination, the WDOL Web site guides the user through a series of questions. Based upon the responses provided by the user, the WDOL site will either identify an *SCA* wage determination or direct the requester to submit an e98 to DOL.

Alternatively, the WDOL Web site provides the requester with the option of going directly to the e98, thus avoiding the questions. If the KO has any questions or concerns, he or she can review the user's guide on the Web site or go directly to the e98.

The DOL e98 process generally provides an instant response linking the requester electronically to the wage determination. If the initial analysis cannot provide the wage determination request, an e-mail response will be sent indicating that it was referred to an analyst for further evaluation. After a DOL analysis, an e-mail response is sent to the requester. Following this process, the e98 system provides monitoring to alert the requester by e-mail if a wage determination is revised.

The responsibility in selecting the correct wage determination will continue to rest solely upon the KO. As specified on the WDOL Web site, compliance with the process and the guidance presented by the user's guide does not relieve the KO from the requirement to review the contract or solicitation, the *Federal Acquisition Regulation (FAR)* and DOL regulations.

The WDOL Web site has an extensive user's guide with links to pertinent information. It also features a robust library of related regulations, directives, desk guides and other information relating to contract labor standards application. The WDOL is designed to be user-friendly, and has proven to need minimal training for federal agency and general public use.

FAR Case 2005-033 implements the WDOL into the *FAR*. As of February 2006, this case is pending publication as an interim rule.

This information is provided by Army DAR Policy Member Barbara Binney at (703) 604-7113.

***Defense Acquisition Regulation (DAR)* Committee and *Federal Acquisition Regulation (FAR)* Team Member Changes**

Over the past several months, there have been numerous changes in *DAR* committee and *FAR* team members. Welcome to the new members who have volunteered to support the following committees and teams:

DAR Commercial Products/Practices	April Miller, U.S. Army Materiel Command (HQAMC)
DAR Construction	Parag Rawal, U.S. Army Corps of Engineers (HQACE)
DAR Contract Administration	April Miller, HQAMC
DAR Contract Finance	Susan Orris, HQAMC
DAR Cost Accounting Standards	Michael Gallagher, HQAMC
DAR Cost Principles	Michael Gallagher, HQAMC
DAR Environmental	Dr. Tom Kennedy, HQ, Army National Guard Bureau
DAR Government Property	Ann Scotti, HQDA
DAR Pricing Committee	Susan Orris, HQAMC (already on *DAR* Contracting Finance Committee)
DAR Systems Acquisition	April Miller, HQAMC
DAR Transportation Committee	Frank Giordano, Military Surface Deployment and Distribution Command (SDDC)
FAR Acquisition Finance Team	Michael Gallagher, HQAMC
FAR Acquisition Strategy Team	Jean Kampschroeder, HQAMC